

CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM BOARD OF ADMINISTRATION INVESTMENT COMMITTEE

MINUTES OF MEETING OPEN SESSION

October 15, 2007

The Investment Committee met on Monday, October 15, 2007 at the Radisson Hotel & Conference Center, 2233 Ventura Street, Fresno, California.

The meeting was called to order at approximately 9:20 a.m. and the following members were present:

Charles Valdes, Chair
George Diehr, Vice Chair
Marjorie Berte
John Chiang
Rob Feckner
David Gilb, represented by Debbie Endsley
Bill Lockyer, represented by Steve Coony
Priya Mathur
Tony Oliveira
Mike Quevedo, Jr.
Kurato Shimada
Maeley Tom

Terry McGuire represented John Chiang

Investment Committee members excused: Robert F. Carlson

AGENDA ITEM 2 – APPROVAL OF SEPTEMBER 2007 MEETING MINUTES

On **MOTION** by Mr. Shimada, **SECONDED** and **CARRIED** that the September 10, 2007 Open Session minutes be approved as presented.

Mr. Feckner abstained.

AGENDA ITEM 3a – TOTAL FUND, Preview of Issues to be Discussed at November 2007 Asset/Liability Management Workshop

Russell Read, Chief Investment Officer, and Farouki Majeed, Senior Investment Officer, presented the item. Michael Schlachter, Wilshire Associates, was available to respond to questions from the Committee.

Staff provided an overview of the status of the Asset/Liability Management Workshop project, including:

- CalPERS Fund Risk/Return Analysis
- Asset/Liability Inputs and Assumptions
- Asset Allocation Related Items
- Risk Budgeting Approach

The workshop will be held on November 19-20, 2007 in Sacramento. An action item regarding asset allocation recommendations and risk budget will be presented at the December 2007 Investment Committee meeting.

The Committee accepted the information report.

AGENDA ITEM 4a – REAL ESTATE, Responsible Contractor Annual Report

Ted Eliopoulos, Senior Investment Officer, and Barbara Stocking, Investment Officer, presented the consolidated Responsible Contractor Annual Report for all Real Estate Partners and the Housing Program Partners for fiscal year 2006-2007. The report included information on improvements that have been made to the notification and certification processes.

Allan Emkin, Pension Consulting Alliance, was available to respond to questions from the Committee.

The Committee accepted the information report.

AGENDA ITEM 5a – ALTERNATIVE INVESTMENT MANAGEMENT (AIM) PROGRAM, Central Valley Fund Update

Leon Shahinian, Senior Investment Officer, and Jesus Arguelles, Investment Officer, presented the item.

In June 2006, the Investment Committee authorized a \$40 million investment for the Central Valley Fund. The investment is consistent with the AIM Program's strategy of investing in California's underserved markets. The Fund invests in small businesses located primarily in the Central Valley and contiguous areas.

Central Valley Fund representatives Ed McNulty and Brad Triebsch provided an overview of the Fund's activities. Marc Herman with MuniServices, one of the portfolio companies in the Fund, also participated.

The Committee accepted the information report.

AGENDA ITEM 6 – GLOBAL FIXED INCOME

There were no items to report.

AGENDA ITEM 7a – GLOBAL EQUITY, Global Equity Program Restructuring

Christy Wood, Senior Investment Officer, reported on the results of an analysis to identify areas within Global Equity to enhance performance, and presented suggestions about how to significantly increase the active return of the asset class.

Michael Schlachter, Wilshire Associates, and Allan Emkin, Pension Consulting Alliance, commented favorably on the proposal.

The Committee provided input regarding the restructuring strategy. Staff will return at a later date with further information and an implementation plan for the Committee's approval.

The Committee accepted the information report.

AGENDA ITEM 7b – GLOBAL EQUITY, Global Equity Domestic/International Allocation, REIT Exposure, Small and Mid-Cap Exposure, and Benchmark

Christy Wood, Senior Investment Officer, and Eric Baggesen, Senior Portfolio Manager, presented the item. Michael Schlachter, Wilshire Associates, was available to respond to questions from the Committee.

In conjunction with the upcoming Asset/Liability Management Workshop and Global Equity strategic review, the Chief Investment Officer requested that staff undertake a review of CalPERS' Global Equity benchmark. Staff reported on the results of the review and highlighted changes that would better align the benchmark with common practice in global equity investing.

There was discussion about implementation of the proposed changes, with details to be discussed at the closed session meeting later in the day.

An action item regarding the proposed changes will be presented at the December Investment Committee meeting.

The Committee accepted the information report.

AGENDA ITEM 7c – GLOBAL EQUITY, Corporate Governance Update, Proxy Access Update

Christy Wood, Senior Investment Officer, reported that a CalPERS' comment letter had been submitted to the SEC regarding the short and long proposals on proxy access. The SEC plans to have a formal rule in place for the 2008 proxy season. Staff will continue discussions with the SEC and advocate that no rule be adopted at this time.

The Committee accepted the information report.

At the Committee's request, staff will provide an update at a later date regarding Countrywide Financial's possible inappropriate executive compensation practices.

AGENDA ITEM 8a – CHIEF INVESTMENT OFFICER'S / CHIEF OPERATING INVESTMENT OFFICER'S REPORT, Consolidated Investment Activity Report

Russell Read, Chief Investment Officer, presented the item.

The Committee accepted the Consolidated Investment Activity Report. The total market value of the fund as of August 31, 2007, was approximately \$246.4 billion and the total book value was approximately \$195.6 billion.

AGENDA ITEM 8b – CHIEF INVESTMENT OFFICER'S / CHIEF OPERATING INVESTMENT OFFICER'S REPORT, Chief Operating Investment Officer's Status Report

The Committee accepted the Chief Operating Investment Officer's Status Report.

AGENDA ITEM 10 - DRAFT NOVEMBER 2007 AGENDAS

The Committee accepted the following proposed agendas:

- a. Investment Committee, November 13, 2007
- b. Asset/Liability Management Workshop, November 19-20, 2007

AGENDA ITEM 11 – PUBLIC COMMENT

There were no comments from the public.

The meeting was adjourned at 12:35 p.m.

The next Investment Committee meeting is scheduled for November 13, 2007 in Sacramento, California.

FRED BUENROSTRO
Chief Executive Officer